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## **THEORETICAL CONCEPT ASPECTS OF THE ENTERPRISE BUSINESS MODEL**

**Purpose.** *The aim is to study the theoretical aspects of the concept of the business model of the enterprise, and systematic research scientists' view on the interpretation of the essence of the term «business model».*

**Methods.** *The study used the method of analysis, synthesis and generalization.*

**Results.** *Based on this analysis, the main stages of the evolution of the concept of the business model of the enterprise, systematized the main approaches to the interpretation of the essence of this category and the author's definition proposed definition of «business model».*

**Scientific novelty.** *Developed further determine the nature of the business model – as a basis for competitive advantages, which describes the process of generating a profit, features a method of business organization, focuses on the internal business processes of the company and its structure reveals knowledge about the elements of business, shows the logic of value creation in business system and conditions to ensure its quality and opens up new business opportunities, which, in contrast to the existing approaches based on a comprehensive approach to understanding the essence of this category.*

**Practical relevance.** *Understanding of the term «business model» and the definition of its key aspects is the theoretical basis for determining the targets of the company to improve its efficiency in the transformation of economic conditions.*  
*Tags: business model, concept, evolution, nature, approaches.*

**Key words:** *business model, concept, evolution, nature, approaches.*

**The problem definition.** The modern period of economic operators performance is characterized by structural changes which require the quick response to rapid changes of external environment and the need of new instruments development as well as support technology of management decision making. In conditions of economics uncertainties increase it is of the paramount importance for enterprises to build such type of business model which not only would provide a complete picture of all business processes progress of the enterprise and give the actual results of performance, but also amid the financial crisis and competition growth would provide financial firmness, liquidity and performance of the enterprise on the operating and strategic level and furthermore, considering that any enterprise is an object of the market relations, which would accommodate the growth of its market capitalization.

**The latest research and publications review.** The term “business model” was first defined and used to analyze the activity of enterprises which functioned in the

electronic commerce market. The further development of this concept stipulated the opportunity to use this notion in the strategic management of the enterprises which operate in different branches of economics. Within the strategic management theory, the business model concept is more widely used to explain the differences in performance of the enterprises which operate in the same industry. However, despite the increasing quantities of scientific and research and practice publications and heightened attention to enterprises business models studying [1,2,4-8,11-13], problems to define the very term “business model”, its main components and the role of the business model in the strategic management theory are scarcely illustrated, which complicates the process of this concept realization in practice.

**The problem statement.** The research objective is to study theoretical aspects of the enterprise business model, research and systematization of the scientists views as for the definition of the notion “business model”.

**The main research subject summary.** Despite the fact that the concept of business model ranks among new concepts of the modern strategic management, while economics development there appeared new successful business models, which drew attention of society and due to which enterprises became mobile and developed.

We should agree with Adrian Slivotsky, who truly states that in 80s of the last century there appeared the optimal conditions for development of the business models novel approach. It is novel approach to the business models formation that provided the essential inflow of the value [1, c.23-24]. The achievements of many world-known companies testify of their business models success, and the innovation rise allows to create even more effective business models, which can ensure the profit in the long-term outlook.

This fact is verified by the evolution in the Figure 1, which presents so called “wave” of business models and besides tends to growing.

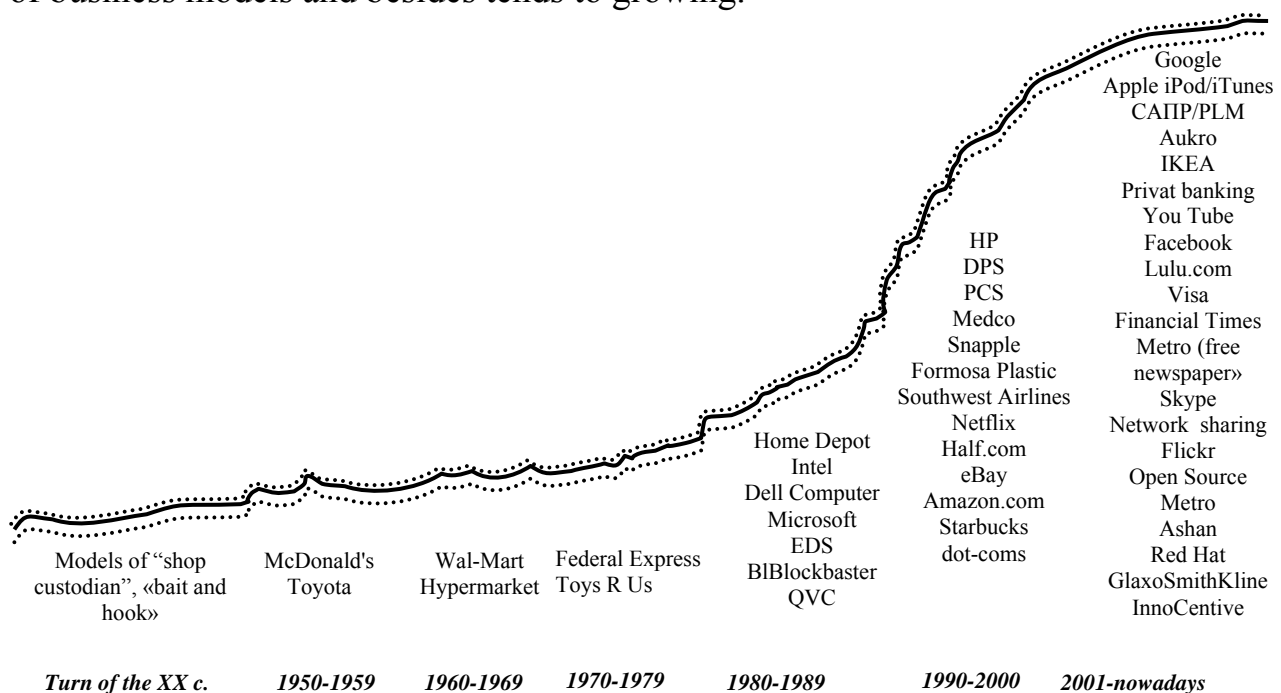


Fig. 1 Business models evolution

The experience of successful worldwide companies proves that effectively designed business model ensures the definite preconditions of the core competency

intensification, which, in its turn, owing to unique combination of business processes creates stable irreproducible competitive advantages.

According to the evolution, presented in the Figure 1, one can state that business model in general can be considered as all those distinctions, which make an enterprise unique and which ensure its success in the market. Generally the business model illustrates how a company earns money and how it positions itself in the market.

Basing on the principles of semantic analysis, the business model consists of two components: “business” and “model”, which in their turn have very fixed meanings.

In “The Big Encyclopedic Dictionary” the term “model” (from Latin *modulus* - a small measure, standard, manner, sample) is any imaginary or symbolic model-based image of an object or specially made system which reproduces characteristics of the prototype system [2].

In its turn, “*Ozhegov Dictionary of the Russian Language*” interprets the term “business” as the commercial economic activity which brings income and profit [3].

The combination of these two terms allows to generally interpret the notion of “the business model” as the business logic which describes in detail the mechanism of transformation of the enterprise resources and capabilities into the formation of values for consumers and consequently the receipt of profit.

The rapid growth of different business models caused the appearance of the business model conception, which like any conception, has its own evolution (Fig. 2).

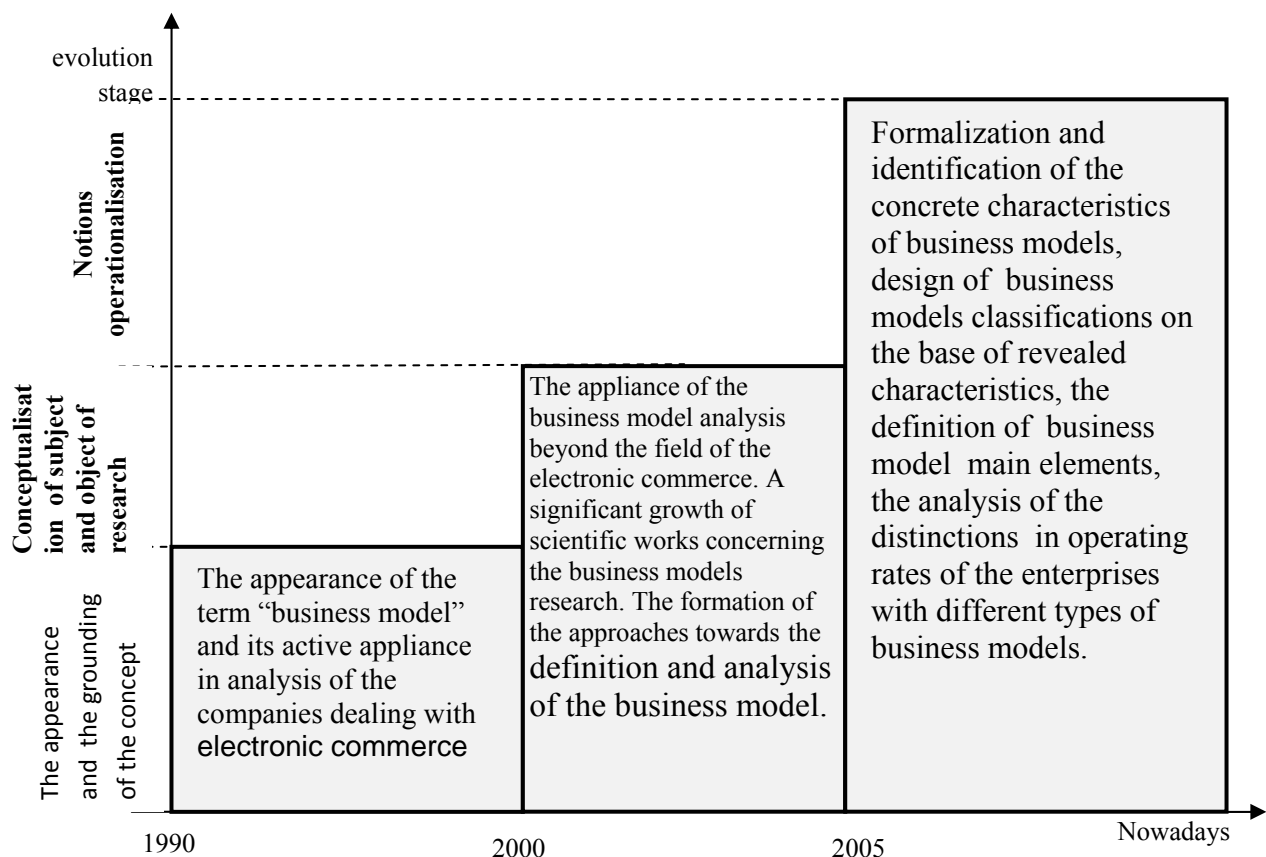


Fig. 2 – The periods of the evolution of an enterprise business model conception

In the leading electronic database of the company “EBSCO” which includes articles from scientific journals of business and economics («Business Source Premier» [4]) the term “business model” firstly appeared in 1960 in the annotation to the article “Accounting Review”. Later, the number of mentions of this term only grows each year and it causes the appearance of the business model conception.

The business model conception, like any economic one, includes the main stages: appearance, formation, development. The particular stages of the business model conception development are partially considered in the publications of Strekalova, N.D. [5] and Shatalov, A.I. [6].

The business model conception appeared in the early nineties of the last century and was actively used for the analysis of the companies dealing with the electronic commerce.

At the beginning of the XXI century (2000-2005) the interest of the scholars to the business model research and analysis grows and the term “business model” comes into use in different branches of economics. At this stage different approaches towards the business model definition and analysis are formed.

Nowadays the business model conception is at the forming stage which is characterized by the notions operationalisation. At this stage the refinement and instantiation of the abstract conceptual notions and their dissolution into the separate aspects are effected. Within the object and the subject of research more concrete operational concepts, which allow to concretize the business models characteristics and to determine the main elements and compare their different types, are developed.

The forming stage, which is appropriate not only for the business model conception, but also for any other scientific conception, is characterized by the absence of consistency and terminological confusion.

The study of existing works, connected with the research of the business model problem, allowed to determine that there is no integrated approach to interpretation of the very definition “business model” and there are lot of interpretations of this notion. In every interpretation the notion “business model” is considered from the certain point of view with a focus on the different aspects of the enterprise activity. On the basis of the research there were nine approaches determined (Fig. 3):

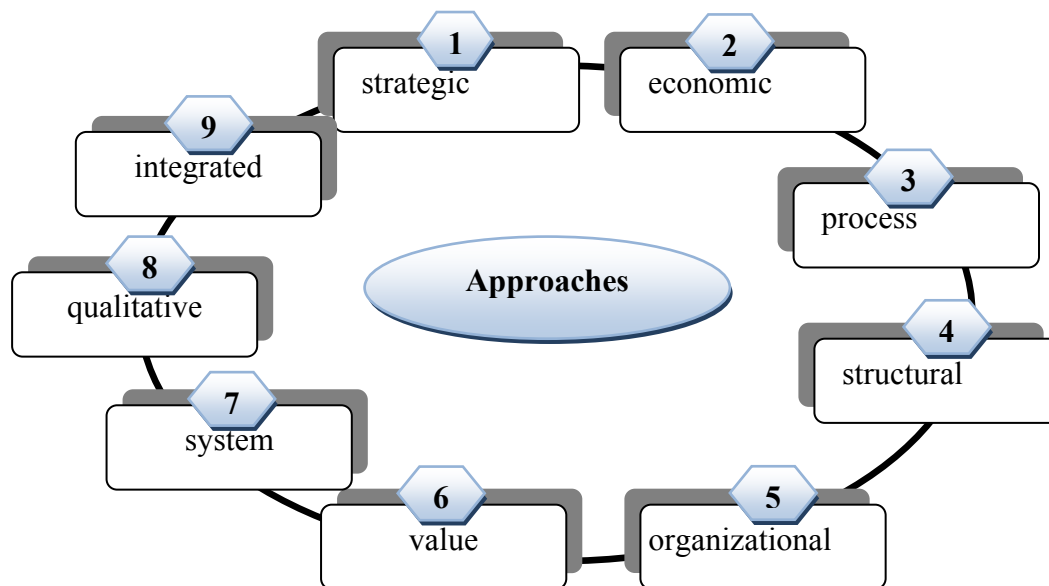


Figure 3 – The main approaches to the determination of the term “Business model”

The strategic approach emphasizes the strategic aspects of an enterprise, its market position and provides special view on the new opportunities of growth for the enterprise. This approach followers [7, 8] treat the business model as the set of business methods of the enterprise (its structure, production, methods of delivery and service of goods, appreciation of goods), rules of business according to this strategy.

This approach is appropriate for the following determination: “The business model is the abstract representation of some strategy aspects of an enterprise, which determine the relevant details, concerning the aspect how the enterprise can benefit its clients and owners” [7].

One should agree with K. Galbraith [9], who insists on the necessity of ensuring compliance of the business model with the enterprise strategy, which is the key success factor of the enterprise in the market.

The strategy principally is based on the positioning of the enterprise and its products as absolutely different from those of its business rivals, and its business model illustrates how the enterprise interacts with other members of the market.

The authors who adhere to the economic approach in the interpretation of the notion “Business model” [10,11] consider it as the method of business conduct, due to which the enterprise earns its keep, i.e. generates profit. The Harvard Business school gives the following definition of the business model: “This is the set of the determinant business solutions, actions and compromises which are used by the company to make a profit” [10]. This approach focuses on the financial and economic performance results of the enterprise when considering the notion “Business model”.

The evolutionary changes in the business organization, followed by the conversion from the functional management to process-oriented one provided the opportunity to consider the business model from the position of the process approach, which is characterized by the focusing on the internal business processes of the enterprise. According to this approach, the business model of the enterprise is considered through the prism of its business processes (the basic ones, executive and

administrative business processes). In the terms of this approach Ostelwalder, A. [12] defines the business model as the structure of business processes and interrelations between them, which are used for planning, controlling and correcting the enterprise activity.

In economic literature [13] one can find the structural approach, according to which the business model is regarded as the system of the key interdependent systems of the business, which organize and support the competitive business. This approach focuses on the set of the interrelated systems or company profiles.

According to the organizational approach the term “business model” determines the value which the enterprise offers to different customers, reflects its capabilities concerning the creating, promoting and providing of this value to the clients, and also reflects the capital ratio, necessary for steady income.

Otto Petrovic and Christian Kittl consider business model as the logic of value engineering within the business system [10]. While Slivotsky, A., in his turn, in the context of the value approach states, that the main condition of an effective business model is the preservation of the value, that’s why when the business model is out-of-dated, then the value migration occurs. Depending on the development stage of the business model, the value migration (which makes the maximal favor to a customer) has three stages [8]:

1. Value inflow stage – the innovative enterprise, which started to meet the customers demands better, succeeds here. Mostly newly developed and young innovative companies which were able to take into account the needs of the customers which other companies ignored, succeed in this stage.

2. Value stability stage – here the business model corresponds to the customers needs, with competitive equilibrium. This type of business model preserves the value, but expectation of the future stable profit margins interferes with new value inflow. Very often this stage is attended by the price competition.

3. Value outflow stage – is appropriate for any enterprise which started to meet the customers needs better.

The main condition to ensure the business model effectiveness is to preserve its value. As far as it decreases (depending on the business model life-cycle stage) the value migration occurs, and the value designed by the enterprise starts migrating from the out-of-date business models to the new ones, which in their turn are able to meet more actual needs of the customers [6].

The description of the business model on the base of the system approach requires the certain knowledge concerning the business elements, their interrelations, functions, internal processes of the business system. In this context, one should agree with Strekalova, N.D., who states that “the particular business elements and sub processes in themselves cannot guarantee the goals achievement. From the system point of view, the business model is not just its separate components sum. Its every component contributes to the system”[5].

Within the system approach, the business model is considered as the set of interrelated model elements, which determine the internal and the external environment of the company in the terms of the integrated system.

The understanding of the matter of business model as the integrated business system description allows to study its structure, interrelation between its structural elements and the way this system interacts with the real world.

The competitive management conditions, world economy globalization, products life cycle reduction cause the necessity of consideration of the business model from the position of the integral approach. The follower of this approach, Osterwalder, A. [12] insists on the necessity of the conceptual view of the business model, which would include different combinations of the abovementioned approaches.

In terms of the integrated approach, the foreign authors [10] consider the business model from the positions of the economic, system and strategic approaches. The authors determine the business model as “the concise description of how the set of interrelated elements affects the decisions concerning the strategy, structure and economics of the enterprise, which allow to ensure the stable competitive advantages in the certain markets” [10, c. 727].

Osterwalder, A., when giving the description of the business model, which must be innovative in the contemporary transformations in the industrial world, also insists to consider the business model from the position of the integrated approach. He determines the business model as the realization of the company strategy within its internal structure (its clients, supply, infrastructure, finances), processes and systems [12]. Thus, the notion of the business model is considered from the positions of all abovementioned approaches.

The content-analysis of the sources concerning the conceptual approaches to business model allowed to determine, that the contemporary economic science interprets the term “business model” ambiguously and shows that there are several approaches to its considering. The basis of each approach is the certain point of view on the business model of the enterprise.

In our opinion, the matter of the term “business model” should be considered from the positions of the comprehensive approach, which allows to focus on the key aspects, which are appropriate to the business model of the enterprise (fig. 4).

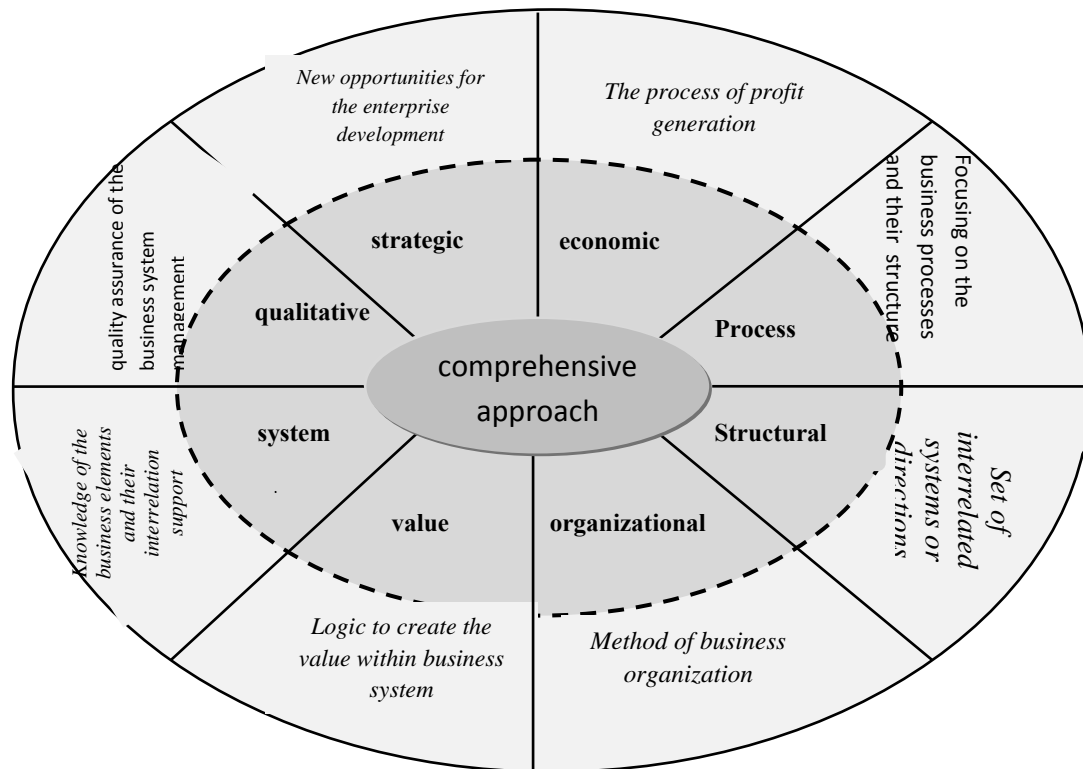


Figure 4- The key aspects of the matter of the term “Business model”

In terms of the comprehensive approach the business model is considered as the basis of competitive advantages of the enterprise, which describes the process of profit generation, characterizes the method of the business organization, focuses on internal business processes of the enterprise and their structure, reveals knowledge of business elements, shows the logic of value creation within business system and conditions of its quality assurance, and also gives new opportunities for business development.

#### **The study conclusions.**

The conducted research revealed, that the formative stage, which is appropriate for the business model conception, stipulates the evolution of the very term “business model”. However, in terms of any approach the enterprise business model is the key component of the development process of the enterprise, and it has the following advantages:

- Business model allows to trace the logic of business organization, explains the chain of cause-and-effect relations, allows to rethink methods and mechanisms of activity arrangement of the enterprise;
- Business model allows to avoid the contradictions, which are appropriate to functional and matrix models of business organization, because in the process of the modeling it is possible to determine the priorities and non-agreements;
- On the basis of the business model building it is possible to focus on the influence on the principal branches of activities, which generate value, income and profit of the enterprise;
- The business model is the strategic asset of the enterprise, as it reveals the complexity of its functioning and allows to focus on its development priorities.

The future research perspectives in this field are the study of the main approaches concerning the structural elements of the enterprise business model.



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